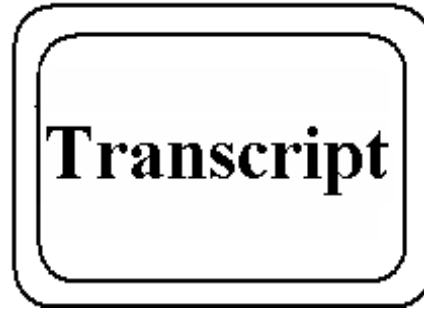




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Senator Nick Sherry
Assistant Treasurer

ABC 2 News Breakfast
Interviewer: Michael Rowland
4 March 2010

7.45am

E&OE – PROOF ONLY

SUBJECTS: National Accounts, Interest Rates, Stimulus Strategy

Michael Rowland: The signs of recovery prompted an interest rate rise earlier this month. Senator Nick Sherry is the Assistant Federal Treasurer and joins us now from Sydney. Senator Sherry thanks for joining us.

Nick Sherry: Good morning and good morning to your viewers.

Rowland: Surely such a relatively robust growth performance would encourage Glenn Stevens and the Reserve Bank board to hike interest rates?

Sherry: Well, firstly on the growth figures - it is a good, solid result. As the Treasurer said yesterday, we're the envy of the world, certainly other advanced economies which have not been able to match Australia's growth. But the Government and the independent Reserve Bank have made it clear that when interest rates went down to record lows, the cash rate went down to 3% because of the emergency of the financial and economic crisis, those record lows were not going to remain forever. As economic growth has recovered and strengthened, then the Reserve Bank makes judgments and interest rates return to more normal levels.

Rowland: If this recent growth figure was annualised we'd come out with a figure of about 3.5%, that would be above the trend Glenn Stevens was talking about. Would that be cause for concern for either the bank or the Federal Government?

Sherry: Well, you just can't take one month's figure and annualise it. The important thing was, I think, the yearly figure - the monthly figure was good, obviously - because you look at the yearly figure and the trend growth.

Rowland: Surely the Government is now looking at, if not winding back completely all of its stimulus spending, perhaps trimming it in some respect because clearly the

economy is taking off because the Government stimulus has done a great deal towards boosting economic activity, but you don't want to over heat the economy by pouring in the stimulus money that's so far unspent.

Sherry: Well key elements of the stimulus package have been, have been wound back. I mean cash payments, small business and the first home owners grant are key elements that have been wound back. If you look at the growth figures, interestingly the non-dwelling construction sector is still 20% below where it was a year ago and if you look at the remainder of the stimulus, which is predominantly in the construction area, it's very necessary to maintain that investment in infrastructure because that particular sector of the economy is much weaker than it was a year ago.

Rowland: Are you committed to spending what's left in the stimulus pot?

Sherry: Well, we will continue to roll out the investments, the productivity-boosting investments in schools, in roads, in bridges, ports, railways. That's very important because as the economy has strengthened we need to improve productivity and efficiency. We don't want to go back to a circumstance where, for example, at our ports there are boats waiting off shore because of lack of investment in ports and railways. That's very important investment that will continue, but in terms of the strict parameters we have on expenditures, we will meet those. The Expenditure Review Committee, of which I'm a member, is now meeting very regularly and it's a tough, rigorous process to restrain expenditure.

Rowland: How quickly will the Government return to its target of restraining real spending to a cap of 2%?

Sherry: We will meet that target.

Rowland: As quickly as this year's Federal Budget?

Sherry: We will meet that target and you will see when the Budget is released we will have met the target.

Rowland: Now this budget is happening in what should be an election year. Will the Budget, Nick Sherry, be fiscally prudent or electorally popular?

Sherry: Well we have set out the targets of restraint on expenditure. We will meet that. Our focus is obviously on continuing to maintain the strength of the Australian economy, being fiscally responsible, that's the continual focus of the Government in its economic approach and that will be reflected in the Budget, I'm very sure of that.

Rowland: Senator Nick Sherry thanks for joining us this morning.

Sherry: Good Morning, thanks and good morning to your viewers.